



R.T. MARKE
& Co Limited

CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS

Summer 2017

Newsletter

Landlords under attack

All higher rate taxpayers who own buy to let properties on which there is a large mortgage will pay substantially more tax in future.

Some current basic-rate taxpayers will also be hit, because the change will push them into the higher-rate tax bracket.

Those who are worst affected will see:

- 1) The actual tax they pay on their investment rising and in some case the tax rate payable will rise above 100pc, meaning that all of their profit is paid in tax!
- 2) A rate of tax that pushes them into loss, making their investment financially unviable and forcing them to increase rents sharply – or sell.

The reason is the removal of landlords' ability to deduct the cost of their mortgage interest from their rental income when they calculate a profit on which to pay tax.

So wealthy landlords who do not need mortgages are untouched.

Many landlords are incorporating to avoid these tax issues and this is something you should discuss with your tax adviser.

Buy to let landlords are also hit with other costs:-

- an additional 3% Stamp Duty costs on purchase
- removal of the 10% wear and tear allowance
- a higher rate of Capital Gains than on other investments disposals
- from 6/4/19 individuals selling buy to let properties will have to pay any Capital Gains Tax within 30 days of completion.

Luckily these rules do not apply to commercial properties so there are still opportunities for landlords to make a decent return on their investment.

Any buy to let landlords however need to take advice NOW to avoid extra tax, call us today on 01237 472332 if you want to discuss your situation.



In this issue:

Lifetime ISAs unpacked

New cash basis for property income

IR35: working in the public sector

Departing employees: managing confidentiality

Warning – pensions-related changes

R.T. MARKE & Co Ltd

69 High Street, Bideford,
Devon EX39 2AT
Telephone: (01237) 472332
Fax: (01237) 470221
e-mail: office@rtmarke.co.uk
website: www.rtmarke.co.uk

Registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Registered in England No. 04563415



A list of directors is available at the above address

Lifetime ISAs unpacked

The new Lifetime ISA (LISA), available since 6 April 2017, is a useful addition to the range of government-assisted savings products.

The opening of a LISA is restricted to individuals aged 18 to 39, but once you have one, you can save up to £4,000 each year up to the age of 50 – and receive a 25% government bonus on your contributions. On this basis, an 18 year-old who contributes £4,000 each year can therefore receive a total of £32,000 in bonuses (£1,000 a year for 32 years).

What's the purpose?

This is intended to be a medium to long-term vehicle for saving towards retirement or the purchase of a first home. If you are saving for retirement you can only withdraw funds free of penalty from the age of 60 or if you are terminally ill. When it comes to buying a first home, you can withdraw the money for a property worth up to £450,000 (£250,000 outside London) any time from 12 months after you first save into the account.

Any other withdrawals will incur a 25% charge, unless it is the closure of the account during a 30-day cooling off period. The first bonus will be paid in April 2018 but thereafter bonuses will be added to the account monthly. Savings in a LISA (though not the bonus) count towards the overall £20,000 annual limit on ISA investments.



Saving for retirement

As a means of saving for retirement, a LISA is very different from buying a pension. There is no tax relief on savings (although the bonus is equivalent to 20% basic rate tax relief) and employers cannot contribute. The maximum investment in a LISA is much lower, but there is no tax to pay on withdrawals from it. On death, a LISA forms part of the estate, unlike pension savings. For many people it's probably best seen as a supplement to a pension plan, not a replacement.

If you already have a Help-to-Buy ISA, during 2017/18 only, you can transfer savings built up before 6 April 2017 into a LISA and still save an additional £4,000 in the year.

Only three providers were ready to offer the new LISAs at their launch date. However, for most savers – apart from those approaching their 40th birthdays – there is no rush to open one early in the tax year because the 2017/18 bonus will be the same regardless of when funds are deposited.

New cash basis for property income

Many more small businesses can now use the simplified cash basis of calculating profits following a big increase to the entry limit.

For property letting businesses, the cash basis has become the standard method for individuals, unless the landlord opts out or has rental income above the threshold.

Under the cash basis, a business records income when it is received and outgoings when they are paid. You therefore do not pay tax on income you have not received or account for amounts you owe, trading stock or work in progress. And the accounting is generally much easier.

From 6 April 2017, the cash basis will be available to self-employed individuals (and partnerships of individuals) with annual turnover up to £150,000. Previously, small businesses could only use the cash basis if their turnover was below the VAT registration threshold – £85,000 in 2017/18.

Suitability

The cash basis will not suit some businesses, even if their turnover is below the threshold. If you need to obtain finance, a lender will probably want to see a profit and loss account, which provides a fuller and more accurate picture of the business. Loss relief against other income of the same or previous year is not allowed under the cash basis, and interest on cash borrowing for a trade is only allowable up to £500.

If you buy business equipment, such as a computer or a van, under the cash basis you simply deduct the full cost when you pay for it. The exception is cars, for which you can claim a writing down allowance of 8% or 18% depending on the car's CO₂ emissions. Alternatively, you can use simplified expenses for all your business vehicle costs, whereby you

record your business miles and claim a flat rate of 45p per mile for the first 10,000 miles and 25p thereafter.

Landlords who opt out of the cash basis must do so for their rental business as a whole – it isn't possible on a property by property basis. However, they can elect separately for their UK and overseas property businesses.

Loan interest on property letting may be restricted to the extent that the value of outstanding loans exceeds the value of let properties. And in 2017/18 you can only deduct 75% of finance costs from rental income. The remaining 25% is relieved by means of a basic rate tax reduction.

If you think you may be affected, please get in touch.



If you are self-employed or a landlord with turnover below the £85,000 VAT threshold, the government has announced a one-year deferral from having to comply with the making tax digital (MTD) requirements. You will now not be required to start using the new digital service until April 2019.

However, there has been no reprieve for those whose turnover exceeds the VAT threshold – the start date remains at April 2018. Companies will not become involved with MTD until April 2020. Although the MTD legislation was left out of the pre-election Finance Act, there is no indication that this will affect the MTD timetable. There is much debate, however, about how MTD will work in practice.

IR35: working in the public sector

Changes to the tax rules for personal service companies in the public sector have led to some anger and confusion.

Since 6 April 2017, it has been the duty of public sector organisations to determine the IR35 status of people they engage through an intermediary. Previously it was up to the contractor to do so. Where a public service organisation considers the IR35 rules apply to a personal service company or other intermediary, they must deduct income tax and national insurance contributions (NICs) from fees paid to the intermediary as if they were an employee.

Contractors have complained that some public sector organisations are adopting an overly cautious approach, refusing to engage anyone who uses an intermediary company or deeming all such engagements to be within IR35.

Who is affected?

The changes affect anyone working for a public authority, including government departments, local authorities, hospitals, schools and universities, the BBC and Channel 4, and police and fire authorities. If the engagement is through an agency, the agency must deduct employment taxes, but the public sector organisation has to inform the agency whether the employment status test is met.

An engagement falls within IR35 if its terms are such that the contractor would have been an employee of the client but for the existence

of the intermediary. Whether that is the case depends on several factors, such as the nature of the worker's role and responsibilities, who decides what work needs doing and when, where and how it is carried out and the basis on which the worker is paid.

The Employment Status Service tool

To help public authorities decide, HM Revenue & Customs (HMRC) introduced a new Employment Status Service (ESS) tool in March, and anyone can use it to test the status of a contract. If a contractor thinks a public authority is wrongly deducting tax, they could use the ESS and show the results to their client organisation. HMRC says it will stand by the result given by the ESS, unless a compliance check finds that the information provided was not accurate. For example, the contract might not reflect actual working practices.

Where the client organisation deducts employment taxes, the fee paid to the intermediary is treated as a payment of the worker's own employment income. The worker does not obtain any employment rights through the client, such as statutory payments, unfair dismissal and employer pension contributions, but should already have such rights through the personal service company. The deductions are however reflected on the individual's tax record

and contribute towards their state pension entitlement.

The client organisation only needs to deduct tax and NICs from that part of the fee that represents the worker's services, not any cost of materials incurred by the intermediary, or the VAT charged where the intermediary is VAT registered. The payer may also deduct other expenses that would have been deductible if the worker had been the client organisation's employee. The public sector IR35 rules take precedence over the Construction Industry Scheme. Fees received after deduction of tax and NICs are passed on to the worker as tax-free salary or dividend. The fees are also not liable to corporation tax.

Another change that applies from 6 April 2017 is that the 5% deduction allowed to intermediaries for 'notional expenses' will no longer be available in the public sector. This follows the restriction to tax relief for the cost of travel to temporary engagements when working through a personal service company. This change was introduced in 2016/17 and has affected people such as locum doctors, who take on engagements all over the country.

Please contact us for advice on how these changes may affect you.

Departing employees: managing confidentiality

You almost certainly protect your business's confidential files against external attack, but what if they are taken by departing employees? If you thought that substantial damages would automatically be payable, then think again.

In a recent case involving Marathon Asset Management LLP, an investment management firm, two senior employees copied highly sensitive information before joining a rival firm.

The information included a list of clients who had redeemed their investments – a ready-made target list for a competing business.

Marathon valued the information at £15 million and sought this amount as damages. Although the court found the two employees in breach of their contracts of employment, damages were assessed at a nominal £2. Crucial to this decision was the fact that Marathon suffered no financial loss, with one defendant not accessing any of the files and the other just a few. The court's approach in setting damages was to

ask what the hypothetical licence fee would be for copying and retaining the employer's files without actually using them.

The decision should ring alarm bells for employers because it offers little deterrent to stop employees copying and retaining sensitive data. Any claim for damages will hinge on being able to show evidence of misuse.

Warning – pensions-related changes

There are a couple of recent tax changes which might affect you. One should, in theory, already be in place, but the other will not apply until next year.

The amount you can contribute to a pension once you have started drawing flexibly is set to be further reduced from £10,000 a year to £4,000 a year. The restriction, known as the money purchase annual allowance (MPAA), was due to come in on 6 April 2017. It would have reduced your (and/or your employer's) ability to make future tax-relieved pension saving. The MPAA only applies to contributions to money purchase or defined contribution schemes like personal pensions when you have started to draw down an income from your pension fund. The MPAA input restriction isn't triggered if you have only drawn the tax-free lump sum, if you have only purchased a traditional annuity or if your pension income is taken from a defined benefit scheme.

However, in late April the government withdrew the MPAA measure from the pre-election Finance Bill, along with a raft of other controversial clauses. The Treasury has indicated that the legislation will return after the election, although the timing of its introduction is still uncertain. Depending on the result of the

election, the change might now take place from 6 April 2018 rather than retrospectively from the start of the current tax year. We will keep clients informed of post-election developments.

Self-employed class 2 national insurance contributions

Self-employed people will not have to pay class 2 national insurance contributions (NICs) from 6 April 2018. This could actually turn out to cost you an additional £592.80 a year (at current rates) if your profits are not high enough for you to pay class 4 NICs. Currently, you can pay class 2 NICs at the rate of £148.20 a year on a voluntary basis if your profits are below a small profits threshold of £6,025, and you would do this in order to maintain your NIC record. This could be important because you now need at least 35 years of NI contributions (or credits) to qualify for the full amount of the new state pension.

From 6 April 2018, class 4 NICs will be restructured so that you will be deemed to have paid NICs (without any actual payment) where



your profits fall between £5,876 and £8,164 a year (at current limits). However, if your profits are below this level, the only way you can maintain your contribution record as a self-employed person will be to pay the voluntary class 3 NICs, currently £741 a year – an increase of £592.80.

However, the good news is that you will not be adversely affected if you qualify for NI credits, such as where you receive working tax credit, universal credit or have a child under 12.



Challenging a will is never easy, with several recent decisions involving charitable legacies simply confirming the right of a person to leave their money to whom they like. Proving undue influence or lack of mental capacity is rarely successful, and it can be extremely expensive and time consuming. Mediation should normally be tried before resorting to the court.

Neither route is helped of course by the main witness being dead. A spouse, civil partner or close relative can claim for reasonable financial provision. But adult children who are financially secure will struggle to succeed with a financial provision claim.

TAX CALENDAR

Every month

1 Annual corporation tax due for companies (other than large companies) with year ending nine months and a day previously, e.g. tax due 1 October 2016 for year ending 31 December 2015.

14 Quarterly instalment of corporation tax due for large companies (month depends on accounting year end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for year ending 12

months previously. Last day to amend CT600 for year ending 24 months previously.

File accounts with Companies House for private companies with year ending nine months previously and for public companies with year ending six months previously.

MAY 2017

31 Last day to issue 2016/17 P60s to employees.

JULY 2017

5 Last date to agree a 2016/17 PAYE Settlement Agreement (PSA) with HMRC.

6 Deadline for employers to make returns of expenses and benefits (forms P11D and P11D (b)) for 2016/17 to HMRC and provide copies to employees.

Deadline for online filing of 2016/17 returns for all employee share schemes, with online registration by this date (unless a reasonable excuse) for new schemes set up during 2016/17.

14 Due date for CT61 return for quarter to 30 June 2017.

31 Confirm tax credit claims for 2016/17 and renewal for 2017/18.

AUGUST 2017

1 Penalty of 5% of the tax due or fine, whichever is the greater, where the 2015/16 tax return has not been filed.

2 Submit employer forms P46 (car) for quarter to 5 July 2017.

3 Second 5% penalty imposed on 2015/16 tax still unpaid on 2 August.

OCTOBER 2017

5 Deadline to register for self-assessment for 2016/17.

14 Due date for CT61 return for quarter to 30 September 2017.

22 Pay tax and Class 1B NICs on PSAs (19th if not paying electronically).

31 Deadline for 2016/17 tax return if filed on paper.

NOVEMBER 2017

2 Submit employer forms P46 (car) for quarter to 5 October 2017.

DECEMBER 2017

30 Deadline to submit 2016/17 tax return online to have underpaid PAYE tax collected through the 2018/19 tax code.